



Starboard Advisors

February 06, 2018

WHAT GOES UP MUST...

On Monday, February 6, 2018, investors were slapped in the face with a sharp reminder that markets do not go up in a straight, unbroken line forever.

At one point the Dow Jones Industrial Average (“DJIA”) was down some 1,800 points, before closing down 1,175 at 24,345. The loss was the single largest point decline in the DJIA since its late-19th century formation. In percentage terms, however, the selloff does not even rank in the top twenty. On October 19, 1987, for example, the DJIA fell 22% in one day to 1,722 (the DJIA closed the year at the 1,950 level). On the NYSE, only 324 stocks rose while more than 2,700 declined. Only 15 stocks traded at a 52-week high price, compared to 454 stocks that sold at a 52-week low price. As expected, foreign markets followed the US decline with 5% losses in Asia and 3% losses to major European indexes.

Investors may have been lulled into a low-volatility slumber by last year’s market which did not feature one day with a decline of more than 2%. Such periods are rare and should not be anticipated to continue.

All eyes will now be on the Federal Reserve where Jerome Powell takes over as Chairman from Janet Yellen. Already, market expectations of a Fed rate increase in March have been reduced. Rates are still expected to go up this year, but the trajectory may be less dramatic than previously expected.

Investors need to remember that the economy is strong, unemployment low and corporate profits about to benefit from the recently enacted Federal tax legislation. The important message from history is to avoid any emotional reactive approach. It is not the time to ‘jump in’ and commit all one’s cash reserves, but it is also not the time to ‘panic’ out and sell everything. Selective buying of quality names will likely prove successful over time, but investors should not expect a quick bounce back up to

January's record highs since it will take time to overcome the damage to investor confidence that this sell off has generated.

-Tom Burnett, CFA & Vice Chairman of Wall Street Access

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